

# New Hampshire Individual Health Plan Benefit Association

## Notes to Financial Statements

December 31, 1999

### **1. Accounting Policies**

#### **Organization**

The New Hampshire Individual Health Plan Benefit Association (the Association) is a voluntary nonprofit New Hampshire corporation. The Association was formed in accordance with an order of the New Hampshire Insurance Commissioner (the Commissioner) dated November 26, 1997 (the Order), pursuant to authority granted by RSA 404-C. The Association was established to prepare a Plan of Operation for approval by the Commissioner and, following such approval, to operate a temporary mechanism for subsidization of certain writers of health insurance who experience losses on health insurance policies written for individual policyholders. The operations of the Association, and the Order were considered by the New Hampshire legislature which, in turn, codified certain provisions affecting the corporation and its operations in RSA 404-G. Subsequent to the adoption of RSA 404-G the Association's board of directors implemented amendments to its Articles of Agreement, bylaws, and Plan of Operation to provide for ongoing operations in conformity with the provisions of RSA 404-G.

#### **General**

These financial statements are prepared using a modified fund accounting method in order to reflect the distinction between payments for operating expenses and carrier subsidies. Entries on the statement are prepared on a cash accounting basis except for the expenses of administration which are reported on an accrual basis.

Assessments are collected via a mechanism designed to be self-administrated by health insurance carriers covered by the statute. Assessments are due quarterly in arrears. Assessment payments through the end of the fiscal year are reported based upon actual assessments collected.

Assessments for 1998 and 1999 were eighteen cents per covered life per month. After implementing a revised subsidy mechanism (to be effective for subsidy determinations in 2000) and recognizing adverse experience trends, the board recommended an increase in the monthly assessment to thirty-six cents per covered life commencing in 2000. This increase will first be reflected in assessments for the first quarter of 2000 (which are payable commencing May 15, 2000).

#### **Investments**

The board has adopted an investment policy which provides for investment solely in (i) interest-bearing bank deposits at federally-insured depository institutions and (ii) overnight repurchase agreements secured by highly-marketable governmental securities. Accordingly, all collected and undisbursed funds are reported in the category "Cash and cash equivalents."

### **2. Carryforward Allowance for Administrative Costs**

Pursuant to the Order and the Association's Plan of Operation, the Association is allowed to incur operating expenses up to sixteen cents per covered life per year. In preparing its disbursement plan, the Association's board voted to carry forward unused administrative allowances in order to absorb potential future expenses including audit and wind up expenses. The calculation of this amount is set forth below:

New Hampshire Individual Health Plan Benefit Association  
Notes to Financial Statements (continued)

Assumed Covered Lives - 1999	450,000.00
(the actual reported covered lives exceeded this amount in each quarter)	
Annual per life administrative allowance	x \$0.16
This year's administrative allowance	\$72,000.00
Total administrative costs	<u>(17,434.15)</u>
Addition to (subtraction from) Administrative Reserve	54,565.85
Last year's carryforward reserve	<u>\$16,735.19</u>
New carryforward administrative reserve	<u><u>\$71,301.04</u></u>

### 3. Unallocated Assessments

As noted above, the Association is a voluntary nonprofit corporation. 100% of assessments it collects, after expenses, are intended to be applied to subsidies pursuant to the risk sharing mechanism in effect from time to time. Assessments unallocated to disbursements in a given year may be carried forward in order to buffer future volatility in individual health insurance claims experience. Accordingly, the net assets not reserved for future administrative costs are reported as "unallocated assessments."

### 4. Approved but Unpaid Subsidies

Under the Association's Plan of Operation, certain carriers actively marketing individual health throughout the calendar year are eligible for a subsidy based upon experience in the prior calendar year. Carriers are required to submit experience data, as specified by the board, on or before July of each year with respect to the prior year's experience. In addition, one corrective application may be filed in the subsequent year. The following subsidies were approved in 1999 with respect to 1998 experience and the 1997 true up submissions:

<u>Approved Subsidies</u>	<u>1998 Experience</u>	<u>1997 true up</u>	<u>Total</u>
American Republic	\$1,210,294.00	\$146,451.00	\$1,356,745.00
Mutual of Omaha	\$1,208,378.00	81,753.00	\$1,290,131.00
Conseco	<u>\$ 12,620.00</u>		<u>12,620.00</u>
Total	<u><u>\$2,431,292.00</u></u>	<u><u>\$ 228,204.00</u></u>	<u><u>\$2,659,496.00</u></u>

Subsidies are paid from collected assessments pursuant to the Association's Disbursement Plan as funds become available. This memorandum account notes the amount of approved subsidies unpaid as of the close of the fiscal year.

### 5. Incomparability of Prior Year Numbers

1998 was the first year of operation for the Association. Because assessments were paid quarterly in arrears in 1998, the statement reflected approximately three-quarters of the year's revenue. \$269,160.05 was collected with respect to the fourth quarter assessments in 1999. Hence, the total collections with respect to the assessment year were \$1,116,729.68. Subsidy applications in 1998 were lower than what would be expected on an ongoing basis since a major carrier had withdrawn from the individual market and hence was not eligible to apply for subsidies with respect to its 1997 experience.